

Message Text

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CAB - F. MURPHY (INFO)

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FM SECSTATE WASHDC

TO AMEMBASSY MADRID

INFO AMEMBASSY LISBON

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E.O. 11652:N/A

TAGS: EAIR, SP

SUBJECT: CIVAIR: GROUP AFFINITY FARES

1. FOLLOWING IS TEXT OF DEPARTMENT NOTE OF MAY 7 IN RESPONSE TO SPANISH PROPOSAL FOR CONSULTATIONS ON IBERIA GROUP AFFINITY FARES:

"THE DEPARTMENT OF STATE REFERS TO THE NOTE NO. 116 DATED MAY 1, 1975 FROM THE EMBASSY OF SPAIN, WHICH DEALS WITH THE QUESTION OF GROUP AFFINITY TARIFFS BETWEEN THE UNITED STATES AND THE IBERIAN PENINSULA.

"AS THE EMBASSY IS AWARE, RECENT DEVELOPMENTS WITH RESPECT TO GROUP AFFINITY FARES HAVE LED TO A SITUATION IN WHICH IBERIA AND TAP HAVE SUCH FARES AT A LEVEL ACCEPTABLE TO THE CIVIL AERONAUTICS BOARD FOR THE PERIODS THROUGH MAY 31, 1975 FOR EASTBOUND FLIGHTS AND THROUGH JUNE 30, 1975 FOR WESTBOUND FLIGHTS; BUT IN WHICH THERE ARE NO SUCH
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FARES FOR EFFECT FOLLOWING JUNE 1. IT WOULD APPEAR,

THEREFORE, THAT A DIFFICULTY EXISTS WITH RESPECT TO THE QUESTION OF WHAT CONSTITUTES A MUTUALLY ACCEPTABLE LEVEL OF GROUP AFFINITY FARES DURING THE 1975 PEAK SEASON.

"IN THIS CONNECTION THE UNITED STATES AERONAUTICAL AUTHORITIES BELIEVE THAT RESOLUTION OF THE DIFFICULTY CAN BE ACHIEVED WITH THE ACCEPTANCE BY THE SPANISH AUTHORITIES OF A GROUP AFFINITY, PEAK-SEASON FARE OF \$405 BETWEEN NEW YORK AND MADRID. THE UNITED STATES AUTHORITIES URGE THE SPANISH AUTHORITIES TO GIVE URGENT CONSIDERATION TO A PEAK-SEASON, GROUP AFFINITY FARE AT THAT LEVEL. THE POSITION OF THE UNITED STATES AUTHORITIES IS BASED ON THE FOLLOWING FACTORS AND OBSERVATIONS:

"1) THERE IS GENERAL RECOGNITION THAT THE TRANSATLANTIC FARE STRUCTURE WAS IN LARGE MEASURE RESPONSIBLE FOR WIDESPREAD AIRLINE LOSSES.

"2) THE CIVIL AERONAUTICS BOARD ARTICULATED THE NEED FOR A COMPREHENSIVE RESTRUCTURING OF NORTH ATLANTIC FARES BEFORE THE IATA TRAFFIC CONFERENCE IN JUNE 1974 AND ON SUBSEQUENT OCCASIONS. IT SHOULD BE NOTED THAT THE NORTH ATLANTIC AIR FARE WILL SOON BE THOROUGHLY INVESTIGATED BY THE CIVIL AERONAUTICS BOARD.

"3) IMPORTANT TO THE FARE RESTRUCTURING IS THE ACHIEVEMENT OF AN IMPROVED RELATIONSHIP BETWEEN NORMAL AND PROMOTIONAL FARES TO INCLUDE INCREASES IN PROMOTIONAL FARES THAT ARE NOT ECONOMICALLY SOUND; I.E. OFFERED BY AIRLINES AT A LOSS.

"4) THE UNITED STATES AERONAUTICAL AUTHORITIES BELIEVE THAT THE IBERIA FARE PROPOSAL WORSENS AN ALREADY UNSATISFACTORY RELATIONSHIP BETWEEN NORMAL FARES AND PEAK GROUP AFFINITY FARES. IN 1974 THE PEAK GROUP FARES WERE DISCOUNTED 51.3 PERCENT FROM THE NORMAL ECONOMY FARE AND IBERIA WOULD INCREASE THIS TO 54.0 PERCENT IN 1975. IBERIA HAS RAISED PEAK NORMAL FARES 10.5 PERCENT AND PEAK GROUP AFFINITY ONLY 4.4 PERCENT.

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"5) THE UNITED STATES AERONAUTICAL AUTHORITIES ARE PREPARED TO ACCEPT SPECIAL TREATMENT FOR IBERIAN PENINSULA FARES BASED ON IBERIA'S ASSERTIONS OF SPECIAL CIRCUMSTANCES AND NEEDS, AND THEIR PROPOSAL WOULD ENABLE THE CONTINUATION OF LOWER GROUP AFFINITY FARES TO SPAIN COMPARED WITH OTHER EUROPEAN DESTINATIONS. FOR EXAMPLE, AT A LEVEL OF \$405 SUCH A FARE WOULD BE \$89 LESS THAN THE

SAME TYPE FARE TO PARIS WHICH IN IATA IS NORMALLY AT THE SAME LEVEL AS MADRID.

"6) THE PROPOSAL OF THE UNITED STATES AERONAUTICAL AUTHORITIES PROVIDES FOR APPROXIMATELY EQUAL PERCENT INCREASES OVER 1974 IN PEAK GROUP AFFINITY AND NORMAL ECONOMY FARES.

"7) THE CONSENSUS OF IATA AIRLINES IS THAT GROUP AFFINITY FARES HAVE REQUIRED UPWARD ADJUSTMENT TO A GREATER DEGREE THAN THOSE IBERIA PROPOSES.

"8) THE CIVIL AERONAUTICS BOARD BELIEVES THAT THE HIGHER FARE LEVELS IT IS PROPOSING WILL IMPROVE ALL AIRLINE EARNINGS, INCLUDING THOSE OF IBERIA, AND DO SO WITHOUT DIVERSION TO CHARTER SERVICES.

"IF THE SPANISH AUTHORITIES, HOWEVER, CONTINUE TO BELIEVE THAT IT IS NECESSARY TO DISCUSS FURTHER THE QUESTION OF PEAK SEASON GROUP AFFINITY FARES. THE DEPARTMENT OF STATE PROPOSES THAT SUCH DISCUSSIONS BEGIN ON MAY 12 IN WASHINGTON.

"DEPARTMENT OF STATE,

"WASHINGTON."

2. EMBASSY MAY BRING NOTE TO ATTENTION OF APPROPRIATE SPANISH OFFICIALS. KISSINGER

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